Investment Policy Statement for Private Equity Investments

Approved by the Board of Trustees

Adopted: July 19, 2012
Revised: September 28. 2017

A. Introduction

The following investment policies govern the objectives, strategies, implementation, and performance measurement of the Private Equity Program.

B. Investment Objective

The investment objective of the Private Equity Program is to provide performance enhancement and diversification benefits to the overall investment portfolio. The performance objective of the Private Equity Program is to equal or exceed the MSCI ACWI ex US plus 300 basis points annualized and net of fees over ten-year rolling periods (one quarter lagged). Performance inside of ten years will be compared to the Cambridge Associates Global PE & VC Index (one quarter lagged).

C. Investment Guidelines

The investment policies and guidelines for the Private Equity Program follow below.

1. **Private Equity Investments:** Investment is authorized in vehicles that invest in a broad array of various non-publicly traded securities, including but not limited to:

    - ***Buyout*** investments include investments in acquisitions, recovery investments, subordinated debt, and special situations (a category which represents a diversified strategy across many sub-categories). Investments are made across the market capitalization spectrum and typically involve the purchase of a control position (primarily majority positions, with some minority positions) in an established company and may include the use of leverage. Investments are typically made in years one through six and returns typically occur in years three through ten. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

    - ***Venture Capital/Growth Equity*** investments include investments in companies in a range of stages of development from start-up/seed-stage, early stage, and later/expansion stage and growth equity. Investments are typically made in years one through six and returns typically occur in years four through ten. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

- ***Opportunistic*** investments include investments in distressed debt (the debt instruments of companies which may be publicly traded or privately held that are financially distressed and are either in bankruptcy or likely candidates for bankruptcy), mezzanine, secondaries, and other private investment strategies that are opportunistic in nature and do not follow a buyout or venture capital/growth equity strategy. Typical holdings are senior and subordinated debt instruments and bank loans. Equity exposure is acceptable as debt positions are often converted to equity during the bankruptcy reorganization process. Investments are typically made in years one through five and returns typically occur in years three through ten. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

2. **Private Equity Program Investment Targets:** For the Private Equity Program, the targeted and range of investment exposures to the various private equity investment categories are shown in the following table:

	Target	Ranges	Target Return
Buyout	70%	50-90%	10-20%
Venture/Growth Equity	15%	0-25%	20-25%
Opportunistic	15%	0-25%	10-20%
	100%		

Note: Targeted returns are net of fees.

Non-US exposure will be embedded across the above listed strategies with the objective of building a globally diversified private equity program.

3. **Investment Vehicles:** The vehicles for private equity investments are typically private equity limited partnerships, but may also include other entities such as limited liability companies or offshore corporations. These investment vehicles may invest in any type of security throughout the capital structure. The intent is to further build out a direct private equity program in order to increase the likelihood of meeting the targeted return objectives and to minimize fees. However, there may be certain circumstances in which fund of funds may be the appropriate investment vehicle.

4. **Industry/Geographic Concentration:** DCRB shall endeavor to limit the potential for any one investment to negatively impact the long-term results of the Private Equity Program by investing across a variety of industries and geographic locations. For investments in venture capital, it is recognized that opportunities may be most readily available in a relatively limited number of industries.

5. **Investment Vehicle Concentration:** DCRB shall not comprise more than 20% of any one investment vehicle, and any one investment vehicle shall not comprise more than 10% of the Private Equity Program once it is fully invested, calculated on a committed capital basis. The optimum number of investment vehicles in the portfolio and the

maximum exposure to any one investment vehicle varies with time and will be evaluated as part of the annual plan for the Private Equity Program.

6. **Investment Timing:** DCRB shall strive to limit the potential for any one investment to negatively impact the long-term results of the Private Equity Program by investing across business cycles and vintage years.

7. **Liquidity:** Private equity investments are illiquid and typically have expected holding periods of 10-12 years. Investments are typically held until maturity and selling prior to maturity may result in realizing a sales price that reflects a significant discount to fair market value. Liquidity risk is managed by minimizing the possibility of forced sales that may arise from exceeding maximum exposure limits or lowering asset allocation targets to private equity investments.

8. **Distributed Securities:** DCRB will ordinarily direct the sale of securities which are distributed by its investment vehicles as soon as practically possible via the preferred distribution agent and strive to not impair the value of the security.

9. **Fund Performance Evaluation:** The individual investment vehicle performance, as measured by the net of fee internal rate of return and net of fee equity multiple, will be evaluated compared to the performance of respective peer universes and vintage years, as provided by a recognized private equity services provider. It is recognized that immature private equity investments will ordinarily have a "J-curve effect" whereby there are low to negative returns in the initial years due to the payment of investment management fees during a period when investments are typically carried at cost and returns have not been realized.

D. Monitoring

Through the monitoring process, the CIO and investment consultant(s) will extend the initial due diligence into a formal monthly (as applicable), quarterly, semi-annual, and annual process which regularly seeks to determine whether the manager is meeting the Private Equity Program's investment objectives and other requirements. In the broadest sense, the monitoring process is intended to determine whether the initial reasons for selecting the strategy and investment vehicle remain valid. The monitoring process should disclose whether there has been any material deviation from the investment philosophy and process; the personnel responsible for managing the investment vehicle are still in place; the organization continues to be stable; performance and risk meet expectations; and the investment vehicle manager adheres to its investment and other requirements. The underlying principle of the monitoring program is to determine whether all risks to which DCRB is exposed through the use of outside investment advisors have been identified, understood, and, to the extent possible, controlled. The monitoring process focuses on four areas:

1. Compliance with reporting and valuation requirements;
2. Continuity of investment philosophy and process;
3. Stability of personnel and organization; and

4. Performance and risk management.

The CIO and consultant(s) will aggregate investment vehicle data and perform analysis on the overall Private Equity Program, paying careful attention to individual investment vehicle allocations and strategy/sector concentrations to strive to achieve proper diversification. The CIO and consultant(s) also will conduct due diligence with the respective investment vehicle managers to understand the underlying drivers of risk and return. The CIO and consultant(s) shall conduct portfolio reviews and on-site due diligence as necessary. Additionally, the CIO and consultant(s) will address any fund amendments or other legal issues in a timely manner. The CIO and consultant(s) shall provide the DCRB Board with regular performance reports and advise the DCRB Board of other matters as appropriate.